

Music

The U.S. music market is expected to total \$16.5 billion by 2018 at a 1.9 percent growth rate from 2013. The digital recorded music segment was \$3.8 billion in 2013, and digital music download revenues will grow slowly at a 0.1 percent leading up to 2018. The action is in ad-supported and paid-subscription streaming services which rose 48.5 percent in 2013. Digital music streaming will grow to \$1.7 billion during the forecast period at a 14.5 percent growth rate, representing 37 percent of digital recorded music.

“The International Federation of Phonographic Industries (IFPI) estimates, based on comScore/Nielsen data, that 26 per cent of internet users worldwide regularly access unlicensed services. This estimate applies only to desktop-based devices: it does not include the emerging and as yet unquantified threat of smartphone and tablet-based mobile piracy as consumers migrate to those devices. Digital piracy is the biggest single threat to the development of the licensed music sector and to investment in artists. It undermines the licensed music business across many forms and channels – unlicensed streaming websites, peer-to-peer (P2P) file-sharing networks, cyberlockers and aggregators, unlicensed streaming and stream ripping and mobile applications.”⁵¹

Global Export Market Opportunities

It is generally accepted that the largest music trade show in the world is MIDEM, held annually in June in Cannes, France; a major international B2B show with music, tech, and brands converging to enter into licensing agreements and do business. One of the largest music industry events in the United States is a set of film, interactive, and music festivals and conferences that started out as a music only activity, but now encompasses film, tech, and music, and draws a global audience. South by Southwest (SXSW) is based in Austin, Texas and is held over a week and a half annually in April. Throughout the year there are a myriad of festivals and trade shows in the United States and globally, many of which focus on a particular market, region, or genre of music. Many of the trade associations for this industry hold semiannual conferences.

The music business depends on copyright protections and certainty in legal markets. It is critical to understand that the industry is governed by two copyrights: a musical composition copyright and a sound recording copyright. This means, the notes and lyrics have one, *i.e.*, the musical composition, and the recorded version has one, *i.e.*, the sound recording.

This is important as determining who the copyright holders are determines who gets royalties and earns income from performances of musical recordings. This in turn complicates the income generation for musicians, labels, and music publishers. This report does not offer extensive analysis of music publishing and licensing, but it is critical to underscore the importance of understanding rights management as copyright laws and regulatory environments differ worldwide for the music industry, as does the ability of performance rights organizations (also known as collecting societies) to identify, collect, and distribute royalties to their constituents.

After years of declining or slow growth, the industry is beginning to see segmented growth patterns. Several European and Latin American markets experienced growth in the music sectors in 2013, particularly due to increases in the global uptake of streaming, subscription, and ad-supported services. Yet, sales generated by the global recorded music industry in 2013 fell by 3.9 percent to \$15 billion, down from \$15.6 billion in 2012, according to the "2014 Digital Music

Figure 13: Top Markets: Music Exports and Licensing*

2014 - 2018	Rank	Country
Strong Prospects Less Certain Export Growth	1	United Kingdom
	2	China
Less Certain Export Growth	3	Canada
	4	Brazil
Significant Obstacles	5	India
	6	Mexico

* Data Sourced from PwC Global Media & Entertainment Outlook 2014-2018

Report” published by the International Federation of the Phonographic Industry (IFPI). Japan experienced a dramatic 16.7 percent decrease in music sales, principally due to a lack of demand for physical music or ringtones and competition from digital services; this impacted the overall global sales⁵².

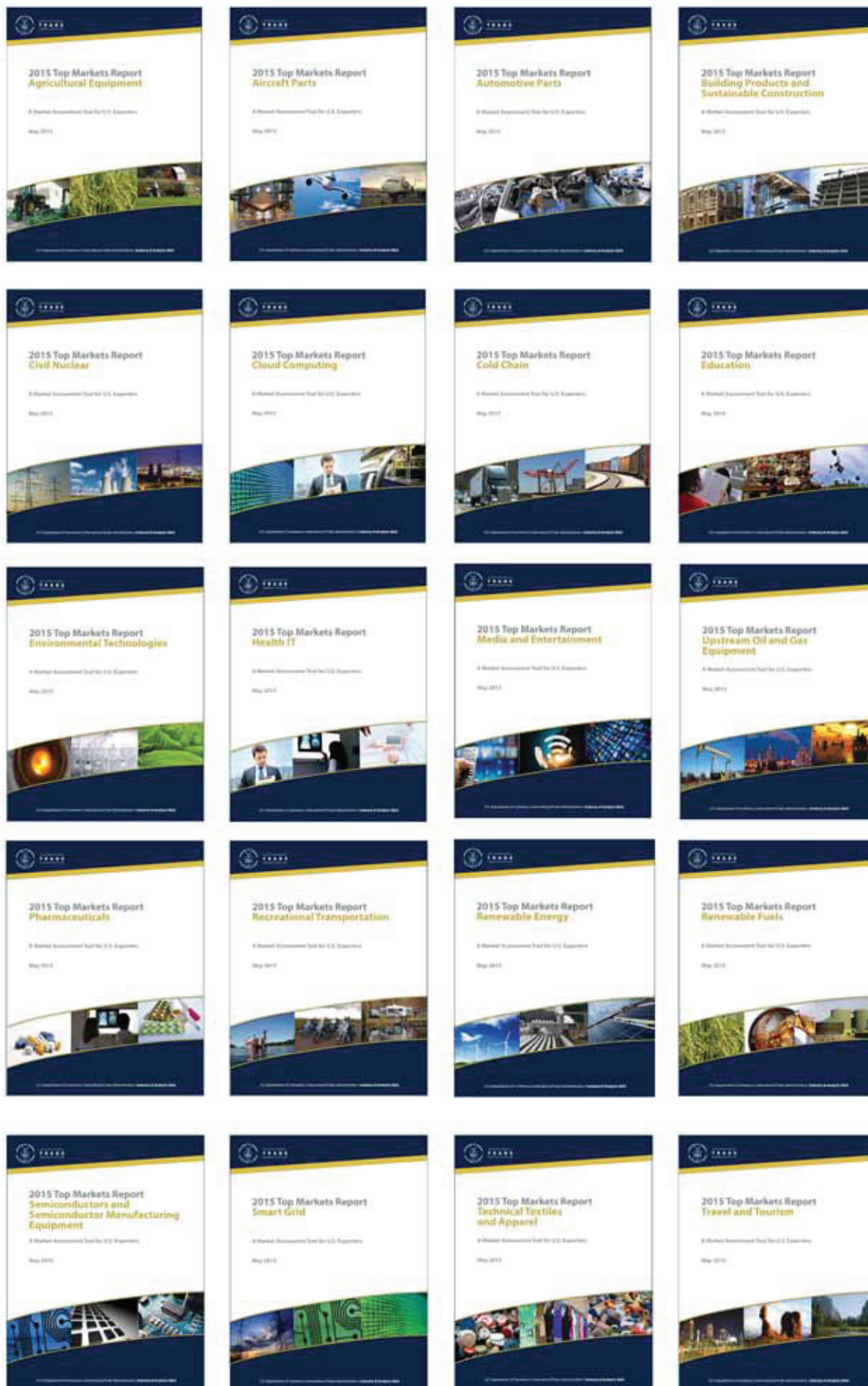
According to IFPI, digital music, which is 39 percent of all music sales, reached \$5.9 billion in 2013, a steady 4.3 percent growth rate, riding the wave of significant growth in revenues and users of subscriptions services, ad-supported services, and downloads. Digital channels cover most of the revenues in three of the world's top 10 markets, a remarkable shift for the music industry from the physical market. Subscription services (such as Deezer and Spotify), grew 51.3 percent, and subscription and advertising-supported streams (such as YouTube and Vevo) grew to represent 27 percent of digital revenues in 2013.

As physical music continues to decline, PwC predicts digital will surpass physical recorded music worldwide in 2014 with a slim margin, at \$10.17 billion and \$10.19 billion respectively. Digital has already surpassed physical in the U.S. and other markets, and this is the first time the entire global music market surpasses physical. The revenues will have grown 7.9 percent for digital and declined -9.9 for physical from 2013. By 2015 and leading up to 2018 the difference will be much more dramatic, leading digital to report \$12.5 billion in revenues at a 5.8 percent growth rate, with physical music revenues to reach \$7.4 billion with a -8 percent decline over the study period of this report.

Despite falling by 2.1 percent in 2013, digital downloads represent a lucrative revenue stream, at 67 percent of digital revenues. They are driving growth in Hong Kong and emerging economies such as the Philippines, Slovakia and South Africa.

While physical music sales are generally declining, it still constitutes the bulk of all global music revenues at 51.4 percent (56 percent in 2012). France's physical market grew by 0.8 percent due to a successful year for local repertoire. Germany, Italy, the United Kingdom and the United States witnessed a slowdown in the decline of physical music sales. Vinyl has made a surprise comeback in recent years, growing at a whopping 101 percent in the United Kingdom and 32 percent in the United States, signaling niche opportunities while it lasts. Performance rights (broadcast, Internet radio services and live music venues) grew 19 percent to reach \$1.1 billion or 7.4 percent of industry revenues in 2013. Synchronization (“synch”) deals (e.g., music in ads, movies and TV) declined by 3.4 percent, but still hold 2.1 percent of total music revenues.

Argentina, Peru, South Africa, and Venezuela all posted top digital licensing revenues ranging from 69-107 percent growth in 2013. IFPI concurs with PwC findings on opportunities in Brazil, China, and Africa as growth markets for the music sector. The top six European music markets: United Kingdom, Germany, France, Italy, Netherlands and Sweden (in order of revenue generation), grew by a modest but resilient 0.6 percent growth, demonstrating reliable markets for U.S. exporters.



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